Should Investors Look to These 2 Low-Beta Stocks for Stability With a Bear Market Looming?

Description

Bear markets are an inherent risk when investing in the stock market. These 20% or more declines happen on average once every three-and-a-half years.

However, now that we are in the eighth straight year of a bull market, investors are left wondering when a bear will make an appearance. It's impossible to predict when it will arrive, but we can adjust our asset allocation to mitigate the damage.

A simple way to do this is invest in defensive stocks with low betas. Beta is a metric that measures a stock's volatility in relation to the market. If a stock has a beta of one, its volatility is aligned with the market. If a stock has a beta of 0.5, it's half as volatile as the market. However, if a stock has a beta of two, the stock is twice as volatile as the market.

With this in mind, investors may want to consider acquiring companies with low betas. **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) are two defensive stocks with low betas, but do they justify a buy at current valuations?

Here's a quick look at both companies.

Fortis Inc.

With 97% of Fortis's $48 billion in assets being regulated, the company has been able to generate strong and consistent cash flows.

In addition, management has effectively managed its capital with average return on equity of 7.4% over the past five years. The combination of stable cash flows and competent management has resulted in a company with a beta of 0.02 and dividend yield of 3.5%.

However, investors need to also consider the stock's current valuation and outlook. The company's price-to-earnings and price-to-sales ratios are above the company's five-year averages, indicating investors may have to overpay for its safety.

In addition, utility companies tend to feel the wrath of rising interest rates. This threat may not be imminent, but when you're investing for the long term, this should be considered.

BCE Inc.

The company has continued to generate significant free cash flow while providing investors with a juicy dividend yield of 4.85%.

BCE was able to grow both its wireless and internet subscribers by over 8.6% in the past year. This is impressive considering that the telecom industry tends to be a low-growth industry.

From a valuation perspective, the company's current price-to-earnings and price-to-sales ratios are at 18.5 and 2.4, respectively. Both of which are above the company's five-year averages of 16.7 and 1.9. Therefore, investors may want to wait from a more attractive valuation before buying shares in the company.

Foolish bottom line

Obviously, it's good to have great companies with minimal volatility in your portfolio; however, it's critical that you don't overpay for these companies. Until the valuations of these stocks become more attractive, I'd refrain from adding them to your portfolio.

Fool on!

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